

Foreign Countries buy U.S. debt, benefit from our fiscal irresponsibility

By John Tanner

Some in the Republican Party have long attempted to characterize Democrats as fiscally irresponsible big spenders and at times with merit. However, it is the Republican's budget plan that is endangering the fiscal condition of our economy. What has gone unnoticed over the past two and a half years is the Bush Administration and the Republican Congress ignoring that its fiscal policies have resulted in a colossal increase in the federal debt.

Increased interest payments mean higher taxes on Americans next year and every year thereafter, but this reckless increase in federal debt has also exposed a very troubling aspect of the Administration's budget plan passed by a Republican House and Senate --Asian countries are purchasing our debt in record amounts, with China registering the most rapid increase. These developments not only adversely impact our economy, but leave our country susceptible to a potential national security threat.

According to the Treasury Department, major foreign holdings of U.S. Treasury securities total \$1.38 trillion. Over the first seven months of 2003, Mainland China and Hong Kong have accumulated \$177 billion of U.S. debt. Currently, China is the world's second-largest buyer, exceeded only by Japan. Furthermore, China's purchases of U.S. government securities rose 20% over the first half of this year and have exploded by more than 105% since the beginning of 2001.

This situation is dangerous because it is how the Bush Administration is in part funding the federal government --by selling our debt to the Chinese. This August, the Congressional Budget Office (CBO) projected that the federal government will accumulate a \$401 billion deficit next year --not including the additional \$87 billion request for Iraq.

This means that foreign investment in the United States is financing the U.S. budget deficit and the war in Iraq. We need to borrow approximately \$1.5 billion per day from foreign investors to finance these deficits. Increasingly, foreign investors, not U.S. residents, will be the beneficiaries of the interest paid by us, our children, and grandchildren.

The high level of foreign holdings of U.S. securities could have a debilitating impact on our economy and foreign policy. How would our economy respond if China threatened to sell large volumes of U.S. Treasury securities? If acted upon, this action could easily fuel higher inflation and put pressure on the Federal Reserve to increase interest rates, putting our economy at risk for a large-scale recession.

Furthermore, the United States does not always see eye-to-eye with Beijing on foreign affairs. The mere threat made by the Chinese to sell U.S. debt could reduce our negotiating position on long-standing issues of disagreement such as national security and trade. The United States should not be put on the defensive when issues of conflict arise with China simply because the U.S. dollar can be held hostage by the Chinese government.

The Chinese are purchasing U.S. Treasuries in an attempt to keep the value of their

currency, the yuan, artificially low. The yuan has been pegged to the U.S. dollar for almost 10 years, despite experiencing record growth in the Chinese economy. The type of growth that the Chinese economy has enjoyed should have increased the value of the yuan during the past decade if it were a free-floating currency. Economists have estimated that the Chinese are undervaluing their currency by as much as 40%. By purchasing U.S. debt, China is able to continue manufacturing products that cost 40% less to produce than they do in the United States. This currency manipulation has contributed to the loss of millions of manufacturing jobs in the United States.

The results of the Republican borrowing program, unless reversed quickly, will be devastating to our economy and diminish our role in the world. One cannot be the world's leading economic and military power if government financing is dependent on funds from foreign countries, many of which oppose our policies. A former official at the People's Bank of China, the country's central bank, and now an economist at J.P. Morgan Chase & Co. in Hong Kong was recently quoted in *The Washington Post* as saying, "The U.S. dollar is now at the mercy of Asian governments."

The only way to get this problem under control is to stop deficit spending. Interest payments alone will soon surpass all domestic discretionary spending like military, health care, education and infrastructure. Unlike those expenditures, interest is a tax on the American people that cannot be repealed.

The Blue Dog Democrats proposed a plan to reverse this catastrophic borrowing which was defeated on a largely party line vote. We will continue this fight, but to be successful, we need the help of citizens outside Congress.

U.S. Rep. John Tanner, D-Union City, represents Tennessee's 8th Congressional District and serves on the House Ways and Means Committee.

